

# Bond Market Insight

## Demand influences rates

### Comment on government bond placement

Yesterday, as expected, demand was concentrated in the six-year notes, allowing the MoF to finance the budget with about UAH7.5bn, including UAH6.7bn from local-currency instruments. Most likely, much of this demand was from foreign investors.

As we expected, the six-year note once again attracted the largest demand—UAH4.2bn at par value. This demand was fully accepted, and provided the state budget with UAH4.4bn of financing. The total amount of this issue at par value is UAH7.5bn.

A bit more than UAH1bn was provided through the three-year note; the MoF rejected only one bid. Other offered bills provided smaller amounts of funds.

**Table 1. Details of domestic government bonds placed at the auction (UAHbn)**

ISIN	Coupon rate (%)	Payment frequency	Maturity	Qty of bonds sold	Price (UAH)	Proceeds <sup>2</sup> (UAHm)	Volume <sup>2</sup> (UAHm)	YTM <sup>3</sup> (%)	Outstanding (m) <sup>4</sup>
UA4000204184	0.00	@Mty	16-Oct-19	420,465	949.04	399.04	420.47	17.50	920.47
UA4000203632	0.00	@Mty	4-Dec-19	500,000	926.45	463.22	500.00	18.00	3,856.42
UA4000198006	14.64	SA	10-Jun-20	826,851	974.17	805.49	826.85	19.23	5,082.18
UA4000204002	17.00	SA	11-May-22	1,041,000	1,020.53	1,062.37	1,041.00	17.70	1,699.00
UA4000204150	15.84	SA	26-Feb-25	4,191,334	1,047.70	4,391.28	4,191.33	16.53	7,475.61
<b>Total UAH</b>				<b>6,979,650</b>	<b>7,121.40</b>	<b>6,979.65</b>			<b>19,033.67</b>
UA4000197396	5.49	SA	13-May-20	12,122	993.70	315.38	317.38	7.12	8,520.41
UA4000204069	7.53	SA	3-Jun-21	3,814	1,004.81	100.34	99.86	7.65	528.89
<b>Total USD</b>				<b>15,936</b>	<b>415.73</b>	<b>417.24</b>			<b>9,049.30</b>

Note: [1] payment frequency abbreviations: M - monthly, Qtly - quarterly, SA - semi-annually, @Mty - at maturity date; [2] proceeds and volumes for the USD-denominated bonds are calculated based on the previous day's exchange rate 26.18/USD, 29.6/EUR; [3] yields on coupon-bearing bonds are effective yields to maturity. Sources: Ministry of Finance of Ukraine, Bloomberg, ICU.

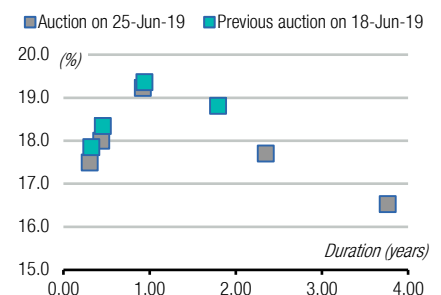
Demand and competition was spread among most of the offered instruments. Rates declined for the two shortest maturities, which was expected due to limited offerings. However, for the one and three-year bills, the decline in rates was quite unexpected. For the four-month and five-month bills, cut-off rates declined by 10bp, while for one-year and three-year, rates declined by 5bp.

Demand for FX-denominated bills was low, providing just US\$16m of funds.

Ukrainian domestic bonds remain attractive. Maturity is now more important than rate for foreign investors, and the longer the better. We anticipate that at least UAH3bn of new issues were purchased by foreign investors. But due to large debt repayments

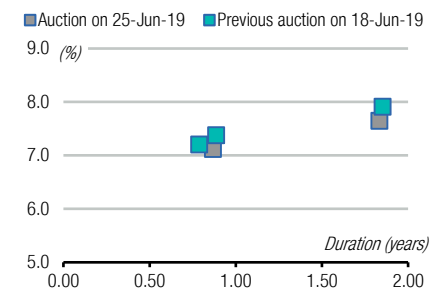
### WEDNESDAY, 26 JUNE 2019

#### UAH-denominated domestic gov't bonds: yield curve in past two auctions



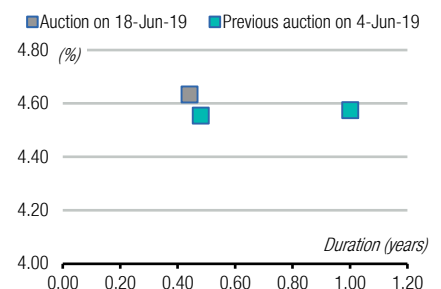
Source: Ministry of Finance of Ukraine, ICU.

#### USD-denominated domestic gov't bonds: yield curve in past two auctions



Source: Ministry of Finance of Ukraine, ICU.

#### EUR-denominated domestic gov't bonds: yield curve in past two auctions



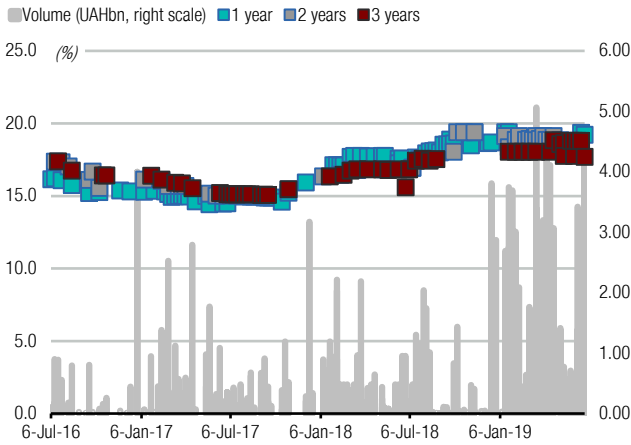
Source: Ministry of Finance of Ukraine, ICU.

scheduled for today, settlement will have low impact on portfolio amounts, especially for foreign investors. The most important is decline in rates, which can continue due to increased competition in demand.

# Appendix: Yields-to-maturity, repayments

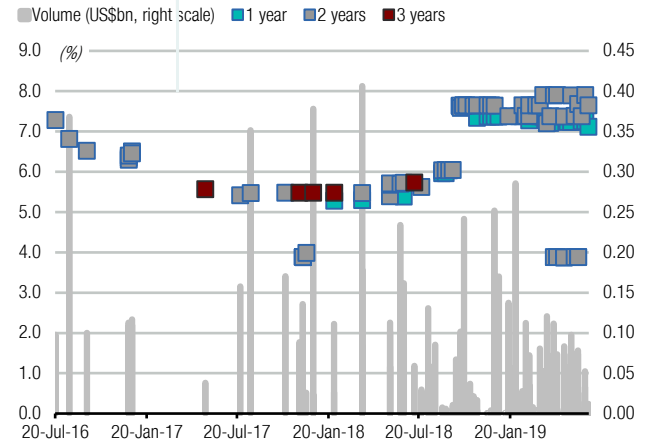
**Chart 1. Three-year history of domestic government bond placements at primary market: proceeds (in billions) and yields-to-maturity (%)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

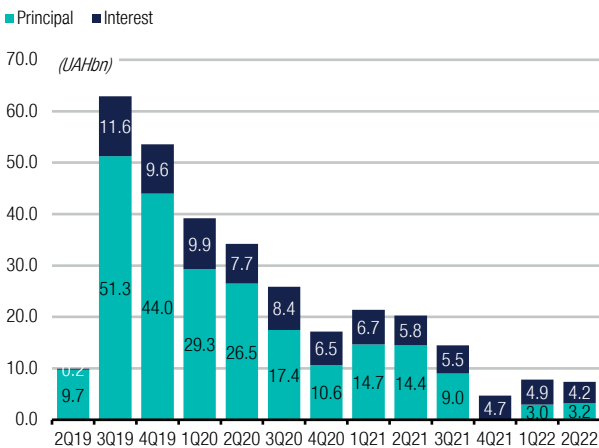
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

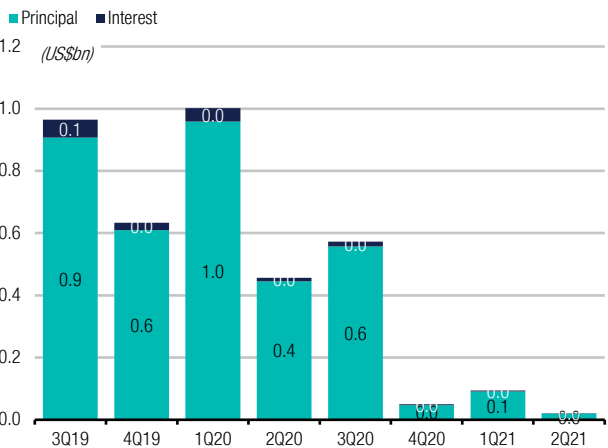
**Chart 2. Future repayments on domestic government bonds (in billions of currency)**

*UAH-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

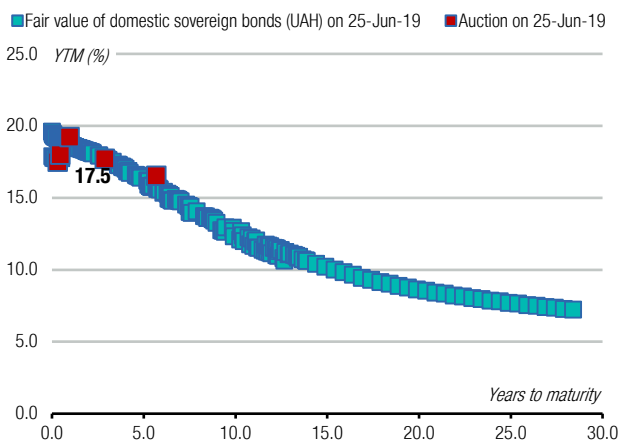
*USD-denominated domestic government bonds*



Source: Ministry of Finance of Ukraine, ICU.

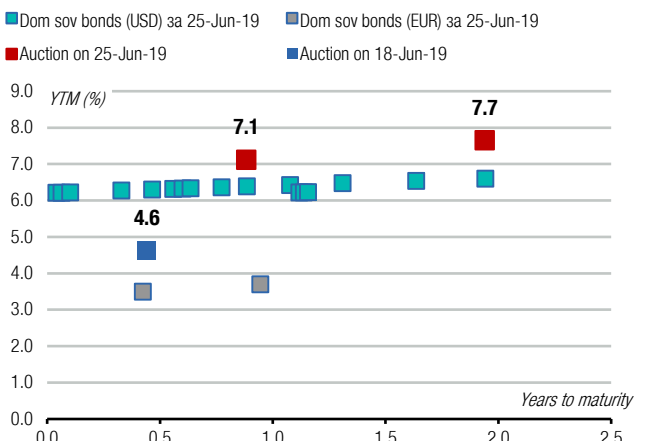
**Chart 3. Fair value of domestic government bonds as calculated by NBU versus placements via primary market auctions**

*UAH-denominated domestic government bonds*



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

*USD- and EUR-denominated domestic government bonds*



Source: National Bank of Ukraine, Ministry of Finance of Ukraine, ICU.

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